

VZCZCXRO4136
PP RUEHDE RUEHDIR
DE RUEHMS #1101 3391219
ZNY CCCCC ZZH
P 051219Z DEC 07
FM AMEMBASSY MUSCAT
TO RUEHC/SECSTATE WASHDC PRIORITY 9049
INFO RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE
RHEHNSC/NSC WASHDC

C O N F I D E N T I A L MUSCAT 001101

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STATE FOR NEA/ARP, EEB/IFD/OMA
TREASURY FOR OTA VALVO

E.O. 12958: DECL: 12/05/2017

TAGS: EFIN ECON PREL MU

SUBJECT: OMAN WILL CONTINUE CURRENCY PEG TO DOLLAR

REF: MUSCAT 1096

Classified By: Ambassador Gary A. Grappo for Reasons 1.4 (b and d)

¶1. (C) On November 26, the Ambassador discussed Oman's monetary policy with Minister of National Economy, and Supervisor of the Ministry of Finance, Ahmed bin Abdul Nabi Macki. Macki stated that Oman was not contemplating, and was adamantly opposed to, changing its rial peg to the dollar. "The dollar is and will remain the rial base," affirmed the Minister. He shared that he had just briefed the Council of Ministers on a comprehensive review conducted by his Ministry on the implications of de-linking the rial to the greenback, which found that budget losses would be "significant" if a new peg were established.

¶2. (C) Macki continued that no alternative peg mechanism would be as advantageous to Oman's "unique" situation, and opined that open discussion of the subject only fueled further speculation and dollar devaluation, neither of which was in Oman's interest. With the ongoing debate throughout the Gulf about currency pegs, Macki surmised that the idea of a GCC common currency now appeared even more unrealistic, especially in light of a lack of a GCC customs union and common market. Despite his convictions vis-a-vis the dollar, however, the Minister voiced concerns about the impact of the declining dollar on inflation in Oman and elsewhere.

¶3. (C) Comment: Macki's affirmation of the dollar peg tracks closely with statements made by Deputy Prime Minister for the Council of Ministers Sayyid Fahd bin Mahmood al-Sa'id, underscored to a visiting Congressional delegation earlier on that day (reftel). In addition, over the past several months the Central Bank has repeatedly and publicly voiced its support for the current peg of the rial to the U.S. currency. Even in the wake of rising inflation and public discontent, the government appears content to hold firm and ride out the dollar's weakness. End Comment.

GRAPPO